When Will Tax Revenues Recover?

Posted by Pierluigi Oliverio on Monday, August 22, 2011

When I read or hear an economic report about building permits, housing prices, consumer spending, jobless claims, GDP, inflation, stock prices, etc., it always leaves me wondering: What does this data mean to a city?

Well, based on current numbers, San Jose shouldn't expect any significant increase of our No. 1 revenue source, property tax, for several years. Property values have dropped or are stagnant, and no windfall is waiting in the wings for San Jose.

The Case Shiller index has tracked residential property values nationwide for approximately 10 years. It also tracks specific regions of the country, including our own. San Jose's breakdown of land is roughly 85 percent residential and 15 percent commercial/industrial. I contacted the County Assessor's office about the Case Shiller index and asked if Santa Clara County has tracked the index. The answer was yes. Local residential real estate has followed the index, so Case Shiller appears to be an indicator to watch for future property tax revenues in San Jose.

Compared to past quarters, San Jose may see some increase in sales tax revenues in the short term—the state lags in the reporting by several months. However, any increase in sales tax will have to plug the $2.8 million hole that was created by the state after the budget was balanced in San Jose. By not extending vehicle license fees, cities across California lost $130 million in revenue.

Consumer spending is difficult to predict. Will you or your friend purchase anything substantial this week? A car, appliances, expensive jewelry? These purchases are made based on confidence in having a job or moving into a new home. If there is a lack of confidence or not many people moving into new homes, this will result in lower sales tax revenues to cities. The savings rate for Americans has increased greatly over the last year, which is a good thing for the long term since individuals, in addition to government, are over-leveraged.

It seems the last decade of economic growth was based greatly on borrowing. And now, no longer being able to borrow/spend at that same rate will translate to anemic economic growth. It is a good idea for cities to be conservative with sales tax revenues for budget planning, because an increased savings rate for consumers sustained over time will decrease spending.

As far as an upside in the utility tax, that depends on how many buildings are occupied by employees and the rate of consumption of electricity, water and gas (not gasoline for automobiles). Thus, the more vacant buildings are occupied,the more utility tax will be generated. Consumption also has to be balanced. Government is trying to promote energy efficiency, which is a good thing, however, it could translate to lower utility taxes over time. But you can expect a slight uptick in utility tax revenue from December with all of the holiday lights.

Other indicators at the macro level have an effect on San Jose but are harder to trace to direct revenues, like property tax, sales and utility tax. We will continue to walk a tightrope between tax revenue and services that can be provided for years to come.

On a final note, last week I attended the Rancho del Pueblo Golf course community meeting. One comment made by a staff person for Supervisor George Shirakawa was particularly interesting. The person said the city should sell the San Jose Municipal Rose Garden. Well, certainly the city could propose selling anything, but the first thing to point out is that selling any park in San Jose requires approval by voters. Another point is that there is no mortgage payment on the award-winning Rose Garden. The park land, a former prune orchard in 1928, has no outstanding debt. This is completely different from the golf courses, which the general fund must subsidize by paying back bonds that were issued without voter approval to purchase the land.

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